United Nations E/CN.3/2005/5

Economic and Social Council

Distr.: General
20 December 2004

Original: English

Statistical Commission
Thirty-sixth session
1-4 March 2005
Item 4 (c) of the provisional agenda*
Economic statistics: service statistics

Report of the Organization for Economic Cooperation and Development on service statistics

Note by the Secretary-General

The Secretary-General has the honour to transmit herewith to the Statistical Commission the report of the Organization for Economic Cooperation and Development on service statistics. The report is transmitted to the Commission in accordance with a request of the Statistical Commission at its thirty-fifth session.** The Commission is requested to discuss the suggestions and questions contained in paragraphs 12 to 22 and at the end of annex II in paragraphs II.14 to II.16.

* E/CN.3/2005/1.

** *Official Records of the Economic and Social Council, 2004, Supplement No. 4* and corrigendum (E/2004/24 and Corr.1), chap. I, para. 1.

04-65805 (E) 250105

Contents

		Paragraphs	Page
I.	Introduction	1–4	3
II.	Policy needs and service statistics	5–10	3
III.	Main conclusions and priority areas to be addressed regarding service statistics	11–22	6
	Annexes		
I.	Conclusions of and action taken by the Statistical Commission in 2003 with regard to the services programme		9
II.	Voorburg Group on Service statistics: future scope		10
III.	Service measurement issues and related working groups		14

I. Introduction

1. Services are increasingly important in modern economies, contributing about 68 per cent[1] of value added in the world economy in 2002 and, although at a much lower level, are increasingly traded internationally. These patterns of increasing importance of services are observed in the generality of both "developed" and "developing" economies, although there are economies that show exceptions to the trend. Despite considerable progress over recent years, measuring the output of services still raises a range of complex conceptual and practical problems.

2. In March 2003 the Statistical Commission invited the Organization for Economic Cooperation and Development (OECD) to assist it by coordinating development work on service statistics that is being undertaken by international organizations and international expert groups. The guidance the Statistical Commission gave is attached (see annex I). A more comprehensive and detailed report, including an overview of progress, is tabled as a room document for consideration by the Commission, while the present summary document sets out some ideas, proposals and questions about the development of a coherent strategy for service statistics at both the national and international levels. A summary report from the Voorburg Group with proposals on its future scope is attached (see annex II).

3. As part of the coordination project, OECD has drawn on the work of a variety of expert groups working on some of the key issues in service statistics as well as those working to update the System of National Accounts (1993 SNA); to revise the International Monetary Fund *Balance of Payments Manual*, fifth edition; to revise the International Standard Industrial Classification of All Economic Activities, revision 3.1; and to revise the Central Product Classification version 1.1. A summary of service measurement issues and expert groups is attached (see annex III).

4. Consequently, the OECD coordination process has sought to avoid duplication of any aspects of these other larger-scale coordination exercises and has been administratively light, practical and relevant to all the participant organizations, groups and individuals. An important aim of the project is to increase awareness of work on services. With this in mind and to facilitate the communication of methodological outputs as well as communication with other groups and organizations, OECD created some service statistics web pages with many links at http://www.oecd.org/std/services/statcoordination and a generic e-mail hotline std.servstat@oecd.org for questions and contacts.

II. Policy needs and service statistics

5. Given the need to measure accurately economic growth and the increasing interest in the impact of services on national economic performance and in international trade in services, for many countries information on service statistics is still relatively inadequate and often problematic in terms of quality and comparability.

6. Any attempt to take a strategic view of service statistics requires some assessment of data users and their analytical needs. Users may include central banks, national accountants, trade analysts and negotiators, ministries of finance and

industry, international institutions, economic forecasters, businesses, trade associations and academia. One would also take into account user needs with sectoral interests such as health, education, tourism, financial services, audio-visual services and the like, but only insofar as there is a need to make comparisons across sectors. A first attempt to show which statistical fields are most relevant for each category of policy needs is reflected in the table below.

7. There is a general and basic analytical need to understand the size and structure of the service sector's output and employment. Central bankers are clearly interested in a variety of price indicators as well as a wider set of short-term indicators related to output and demand, for example, orders, retail sales, exports, employment and labour costs. In their role of maintaining currency stability, they also need trade and balance of payments information. Generally their interest is at a relatively macroeconomic level. Ministries of finance are equally concerned with all these indicators to inform macroeconomic and fiscal policy as well as econometric models, but may also be interested in indicators of longer-term competitiveness such as productivity, the drivers of growth or investment and indicators of attractiveness to foreign investors.

8. National accountants may be considered as key and influential users of service statistics as well as producers thereof. In measuring output, a balance of good structural information for benchmarking complemented by short-term indicators for projections are needed. Structural information should properly reflect the importance of the service sector and include good output data for service enterprises and non-market and non-profit activities, where they are significant. National accountants also need information on inputs, investment, purchases, employment, trade and prices.

9. Trade ministries, analysts and negotiators need detailed trade data for goods and services in order to inform trade negotiations and monitor agreements. For trade in services, in addressing the needs of the General Agreement on Trade in Services as well as regional accords such as the European Single Market and the North American Free Trade Agreement, this includes but goes beyond the traditional economic concept of exports and imports in the balance of payments to cover access to markets through a commercial presence and the presence of natural persons. Since many services can be delivered to customers only locally, such as to hotels and cleaning services, statistics on the activity of foreign affiliates are needed, as well as on foreign direct investment and on movement of temporary workers delivering services. The trade in services agenda and the internationalization of the production process increase the need for internationally comparable domestic production data on services.

10. Ministries of industry or enterprise or the business environment and trade associations generally take a much more detailed interest in the workings of the economy. They need more microeconomic data on industry and services to inform economic analyses and in order to understand the dynamics and obstacles to growth as well as international competitiveness and attractiveness of the economy to foreign direct investment. They may take an interest in the performance of small and medium-sized enterprises (seen as a potential engine of growth), in activity, productivity, labour costs, human capital, skills, innovation, research and development, science, technology, the information society and other dynamic growth areas such as biotechnology and business services. Finally there is a general cross-cutting concern about sustainable development.

Policy needs and statistical tools involving services

Monetary policy, macroeconomic analysis	*Competitiveness, communication, industrial and small and medium-sized enterprises policies*	*Productivity analysis*	*Trade agreements, globalization of services, offshoring/delocalization*	*Labour policies*
National accounts	National Accounts	National accounts		
Business registers, classifications, monthly, quarterly and annual business surveys	Business registers, classifications, annual business surveys	Business registers, classifications, annual business surveys	Business registers	Business registers
			Bank settlement systems; business surveys and household surveys	Business surveys
		Capital and employment surveys		
Service prices and volumes		Service prices and volumes		
Short-term indicators of service output				
Balance of payments	Trade in services		Trade in services	
	Foreign affiliates trade in services statistics		Foreign affiliates trade in services statistics	
	Foreign direct investment		Foreign direct investment	
			Movement of people (and remittances)	
Other types of statistics	Information and communication technology	Information and communication technology statistics	Information and communication technology statistics	Household surveys of employment (e.g. Labour Force Survey)
	Innovation statistics	Labour Force Survey	Labour Force Survey	
	R&D statistics		Migration statistics	
	Labour Force Survey			
	Mergers and acquisitions			

III. Main conclusions and priority areas to be addressed regarding service statistics

11. Even if the quality of service statistics has increased in many countries over the past decade, the high number of potential users and the increasing demand for such statistics can create the impression that statisticians are far from satisfying users of service statistics. It is quite clear that any medium-term policy to substantially improve service statistics requires adequate resources and a strong commitment from top managers in charge of statistical operations. In particular, efforts to improve service statistics should be aimed at implementing existing standards, strengthening the statistical infrastructure and tackling conceptual and methodological difficulties. In the following paragraphs key issues are identified for both international/supranational bodies and national statistical agencies.

12. Firstly, the overall review carried out by OECD shows that there are several international initiatives aimed at addressing conceptual and methodological issues. The degree of coherence and coordination of such efforts is quite good and has been assisted by the coordination effort. Without emphasizing too much the results already achieved, it is possible to say that the global awareness on what each research group on service statistics is doing has increased, and the same can be said for the accessibility to documents produced by individual groups.

13. Secondly, regarding methodological work, the review has demonstrated that there are no major gaps in the international agenda on the development of service statistics. The major coordinated revisions of the 1993 SNA, the fifth edition of the *Balance of Payments Manual*, the International Standard Industrial Classification of All Economic Activities and the Central Product Classification are expected to provide a new impetus to progress on service statistics.

14. Thirdly, development work on service prices and volumes is fundamental to the measurement of growth and needs to continue. Consideration should be given to the implications of the "Atkinson review of measurement of government output and productivity" conducted by the United Kingdom of Great Britain and Northern Ireland for international practice in measuring the output of public services.

15. Fourthly, there is a need to engage more countries in the service statistics agenda in order to understand the importance of services in their economies. From the point of view of international organizations, it would be necessary:

- To enhance coordination of inter-agency technical cooperation on this matter
- To disseminate methodological developments in various languages to those who need them
- To involve a wider range of countries in expert groups
- To give more attention to the implementation of existing standards and manuals and the monitoring of implementation, data quality and comparability
- To review data collection and dissemination activities carried out by international organizations to ensure that they reflect appropriately the contribution of services to modern economies.

16. From the perspective of the national statistical offices, it can be very helpful to develop an overall strategy for the measurement of services. As it usually takes time for new statistical projects to produce reliable figures, careful planning of the actions required to produce new service statistics is absolutely necessary. According to the OECD review, special attention should be given in many countries to the development and improvement of the statistical infrastructure underpinning statistics on services. This includes structural business statistics (e.g. business registers, units, classifications and definition of variables), the development of product data and trade in service statistics and the linking of data sets; short-term indicators of turnover/production in the service sector; and producer prices for services.

17. Moreover, the improvement of service sector statistics has to be seen in the full context of the collection of statistical information on enterprises. In order to minimize the burden on enterprises in responding to requests for data, priorities for statistical requirements related to enterprises must be established.

18. Although many difficult methodological issues remain, one of the main messages that emerges from the OECD review is that a wide range of methodological guidelines are already available covering most subject areas. The implementation of existing guidelines would allow any country to significantly improve the quality of its service statistics. Much information on useful experiences in implementing international guidelines is potentially available as well. Therefore, it is mainly up to individual countries to invest more in this sector, moving the topic up on the list of priorities.

19. In terms of international comparability, the situation is far from satisfactory. If all countries were able to implement all existing international guidelines, the situation could remain problematic in terms of comparability, especially as far as growth in gross domestic product is concerned. As a Eurostat survey of approaches to measuring the value added of services shows, there are various ways to implement methodological guidelines developed at the international level. This is an area in which international organizations and national agencies could and should do more to develop more precise lists of recommended practices.

20. The Voorburg Group has been and remains a valuable leading forum, network of experts and catalyst for developments in the area of service statistics. It has done essential basic methodological work, notably on classifications, model surveys and, more recently, on service producer price indices and turnover by product. However, with a variety of groups active on different aspects of service measurement, there is a need in its current review of the work programme, and in its way of working, to refocus on areas where the most value can be added, with more emphasis on outputs with a timetable.

21. As a first step in this review, the Voorburg Group bureau has submitted a summary report (see annex II) on its work in which it seeks to clarify the mandate of the Group and the future scope of its work. The Statistical Commission is invited to consider the questions raised in the report.

22. In this respect there is a "governance" question (see also annex II) that should be clarified. Considering that a "city group", such as the Voorburg Group, may not have a clear mandate or the authority to address official recommendations to countries, the question is: Who should be in charge of such activity? Looking at the

distribution of tasks among international groups working on service statistics, it is clear that in many cases such recommendations are actually issued by international organizations building on the work done by the Voorburg Group, as well as task forces and the like, and this is fully appropriate. However, there are domains in which there is no clear assignment of roles or the recommendations are issued only by organizations active in a specific region (such as Eurostat). The Commission may wish to address this issue and identify the way in which global standards can be developed in service statistics.

Notes

[1] World Bank, *World Development Indicators 2004*. Gross domestic product is aggregated in current United States dollars, calculated at current exchange rates.

Annex I

Conclusions of and action taken by the Statistical Commission in 2003 with regard to the services programme

In its report on the thirty-fourth session, in 2003, the Commission:[a]

- Welcomed the comprehensive report on service statistics activities prepared by the Australian Bureau of Statistics (see E/CN.3/2003/12);
- Noted the wide variety of activities related to service statistics carried out by a large number of city and expert groups and voiced general support for those activities;
- Emphasized that the participation of developing countries in those expert groups needed to be facilitated;
- Noted the strong need for a project management approach and coordination of work in service statistics and suggested that OECD take the lead in that regard;
- Agreed that this coordination function should not be carried out by existing city groups, whose work should remain focused on methodological issues;
- Noted that such a coordination function would include a continuous overview of activities carried out, ensuring and facilitating communication between the different groups involved and identifying overlaps, links and gaps in the work on data collection and methodological issues, as well as setting priorities for work on service statistics;
- Encouraged the provision of a single annual report on the work undertaken by the various expert and city groups on service statistics and requested that the report be submitted to the Commission;
- Suggested that the future work on implementation of the *Manual on Statistics of International Trade in Services*[b] should focus on improving the quality of data rather than on introducing more detailed statistics.

Notes

[a] See *Official Records of the Economic and Social Council, 2003, Supplement No. 24* (E/2003/24), chap. III, para. 8.

[b] Statistical Papers, No. 86 (United Nations publication, Sales No. E.02.XVII.11).

Annex II

Voorburg Group on Service Statistics: future scope

II.1. The Voorburg Group on Service Statistics was created in 1986 in response to a request from the Statistical Office of the United Nations for assistance in developing service statistics. It was set up at the initiative of Statistics Canada. The first meeting, hosted by the Netherlands Statistical Office, was held in January of 1987 in Voorburg (the Netherlands), from which the group derives its name.

II.2. The primary objective behind the creation of the Group was to establish an internationally comparable methodology for measuring the real outputs of the service industries. Furthermore, the Group agreed to contribute to the development of the service areas of the two United Nations classifications: The International Standard Industrial Classification of All Economic Activities, revision 3, and the Central Product Classification.

II.3. Subsequently the purpose of the Group was expanded to address service statistics more generally, including topics such as the prices of service products; international trade in services; and employment, skills and occupations in the service sector.

II.4. With the growing economic importance of the service sectors and the emergence and rapid uptake of information and communication technologies, the statistical institutes were confronted with urgent user needs for the development of statistics covering those phenomena. In order to utilize the scarce resources of the national statistical offices most efficiently, the Group has emphasized the importance of international cooperation between both national and international institutes in order to avoid duplication of work and to further the development of work related to definitions and methodology needed for the future production of service statistics. As a consequence, the Group has established close cooperation with other international organizations, such as the International Monetary Fund, regarding service producer price indices, the Organization for Economic Cooperation and Development (information society statistics) and other United Nations groups (classification).

II.5. To prioritize the immense tasks of developing service statistics, the Voorburg Group, at its meeting in 1998, introduced the management tool of a prioritized three-year work programme for the period 1999-2001, with the following topics to be the focus of activity of the Group: producer price indices for services and the classification of service products. Other topics to be addressed were information society statistics, the measurement of demand for services by enterprises and the measurement of non-market services, with particular reference to the non-profit sector.

II.6. The Voorburg Group renewed the previous framework at its 2001 meeting. The framework for the period 2002-2004 consisted of a programme to enable in-depth work on a very limited number of core issues (producer price indices, classifications of service activities and products and information society statistics) and furthermore addressing a few ad hoc issues (non-profit institutions, sales by service products and short-term indicators) not to be dealt with at each meeting.

II.7. The most recent work programme of the Group has raised the concern and perception among a number of participating national statistical institutes that the agenda has become too unfocused. The need to focus on core competencies of the Group and to strengthen the work programme has been articulated, combined with the necessity of focusing on identified goals and deliverables.

II.8. At the meeting held in Ottawa in 2004, the Group had a more thorough discussion of its work methods, programme and objectives in order to discuss and meet the criticism raised. The conclusions of the brainstorming and discussions of the Group are presented below.

II.9. The primary objectives of the Group continue to be the proper identification and definition of service industries, products and measurements of turnover combined with a coordinated effort to produce producer price indices for use as deflators in order to improve the measurement of service components of real gross domestic product. Consequently, the Group will focus its work on: (a) classification issues; (b) output measures; and (c) price indices.

II.10. To fully achieve this primary objective, three major functions must be performed: (a) developing new concepts, methods and best practices; (b) maintaining and improving the knowledge base; and (c) disseminating best practices and knowledge transfer. The first function is the Voorburg Group's main function and has existed since the inception of the Group. The second one is needed because methods and best practices evolve with time. The Voorburg Group has assumed that role implicitly, as there were no other forums to deal with the issues. A similar situation arises for the third function, which is of importance for countries embarking on new developmental work. The recent experience in developing price indices shows that the best way of learning about constructing service price indices is to observe, participate and exchange with more advanced countries.

II.11. In the past, model surveys have been developed for computer services (see Computer Service: A Model Survey of Computer Services,[a] telecommunications, audio-visual services, marketing research and advertising services, and insurance services. More recently, model surveys have been developed for employment services (1997), educational services (1998), demand for services (1999) and usage of information and communication technology by enterprises and households (2001-2002). The models are available in the corresponding papers on the web site of the Voorburg Group: http://stds.statcan.ca/english/voorburg.

II.12. The decision was taken at the meeting held in Madrid in 2000 to develop a model for presenting international practices in different service activities concerning the measurement of producer price indices. Principal papers have been completed for the following services: accounting (2001), telecommunications (2001), legal (2001), real estate (2001), advertising (2002), road freight transport (2002) and engineering (2002) as well as for pre-packaged software (2003). The papers are available on the web site of the Voorburg Group.

II.13. In order to make its work available to the international statistical community and users of service statistics, the various outputs and papers from all the meetings of the Group are available at the Voorburg Group web site, hosted by Statistics Canada (see para. II.11 above). The Voorburg Group web site has been improved by Statistics Canada to make the work of the Group in previous years more easily searchable and accessible.

II.14. It is proposed that for the next three years the Voorburg Group develop its work plan according to the three major thrusts and functions identified in the table below. The main functions of the Group would remain the development of new concepts, methods and best practices, with emphasis on the development of service price indices. Some developmental activities may also be undertaken in classification and output measurement, as required to complement the work on service price indices. Under the heading of maintenance, two major projects need to be done over the next three years:

(a) A review of the best practices established for price indices up to the present time for submission to the Statistics Division;

(b) A review of the model survey to ensure that it still fits and is viable.

Scope and functions of the Voorburg Group

	Classification	*Output measures*	*Price indices*
Development	Central Product Classification[a]	Model surveys[a]	Collected papers[b]
Maintenance	Statistics Division technical subgroup[c]	Reviews of model survey[c]	Ongoing review of best practices[d]
Dissemination/ knowledge transfer	Statistics Division[c]	United Nations technical paper Voorburg[d]	Manual, workshops Voorburg

[a] Work completed.
[b] In development.
[c] Work almost completed.
[d] Work to be done.

II.15. In order to attain its objectives, the Group must, in the short term, do an inventory of the work done in the recent past and establish clearly what remains to be done in terms of developing concepts, methods and best practices and setting clear objectives for disseminating the outputs of the Group.

II.16. Being attentive to the criticism raised, the bureau of the Voorburg Group asks the Statistical Commission to clarify the future role and responsibility of the Group as follows:

(a) Is the mandate of the Group still to establish internationally comparable methods for the proper measurement of the service sector of the economy in constant prices?

(b) Is the function of the Group to develop concepts, methods and best practices in the areas of classification, output measures and price indices?

(c) Is the function of the Group to maintain and adjust concepts, methods and best practices in the areas of classification, output measures and price indices? If not, who is responsible for it?

(d) Is the function of the Group to transfer knowledge on concepts, methods and best practices in the areas of classification, output measures and price indices? If not, who is responsible for it?

Notes

[a] **Statistical Papers, No. 81 (United Nations publication, Sales No. 91.XVII.12).**

Annex III

Service measurement issues and related working groups

Main issue	*Sub-issue*	*Organization/groups*
1. Service statistics coordination and strategy	-	OECD
		Voorburg Group[a]
2. Classifications of activities/ products	-	Statistics Division
		Voorburg Group[a]
3. Measurement of real output of services	Definitions of services output	Inter-Secretariat Working Group on National Accounts
	Service producer prices (deflation of service output) and direct volume measures of output	Voorburg Group[a]
		OECD-Eurostat on service producer price indices Group[a]
		Inter-Secretariat Working Group on Price Statistics; IMF Technical Expert Group on the Producer Price Index
		ILO Technical Expert Group on the Producer Price Index; Ottawa Group
	Service export and import prices	IMF Technical Expert Group for updating the Manual on Export and Import Price Indices
	Estimating service output volumes in national accounts	OECD national accounts experts
		OECD Task Force on Financial Services[a]
		Inter-Secretariat Working Group on National Accounts
	Short-term service output indicators and business tendency surveys	OECD Short-Term Economic Statistics Working Group
4. Measurement of international trade in services	Trade in services in the balance of payments	IMF Committee on Balance of Payments Statistics
		OECD-Eurostat Meeting of Experts on Trade-in-Services Statistics
		United Nations Inter-agency Task Force on Statistics of International Trade in Services[a]

Main issue	*Sub-issue*	*Organization/groups*
		Eurostat Balance of Payments Working Group
	Trade by mode of supply	United Nations Inter-agency Task Force on Statistics of International Trade in Services[a]
	Foreign affiliates' trade in services	OECD globalization experts, Eurostat and UNCTAD
	Mode 4 trade in services	Technical Subgroup on the Movement of Natural Persons — Mode 4[a]
	Trade indicators	OECD International Trade Statistics Group
5. Surveying of service activities	Business registers	Round Table on Business Survey Frames; Economic Commission for Europe/OECD/Eurostat Steering Group on Business Registers
	Statistical units	Eurostat Task Force on Statistical Units
	Business statistics — choice and definition of variables, by size class	Eurostat Steering Group on Structural Business Statistics; OECD Statistical Working Party of the Committee on Industry and Business Environment
	Problems of surveying multinational corporations	
6. Information and communication technology (ICT), research and development (R&D), etc.	ICT and information society statistics	OECD Working Party on Indicators for the Information Society
		Voorburg Group[a]
	R&D statistics	OECD national experts on science and technology indicators
	Innovation statistics	OECD national experts on science and technology indicators
	Science and technology indicators	OECD national experts on science and technology indicators

Main issue	*Sub-issue*	*Organization/groups*
7. Specific sectoral issues	Tourism/financial/insurance/ ICT/business services/trade/ health/education/dwelling services/government/public sector, household production, etc.	Various groups
8. Developing country issues	Disseminating methodological work	
	Technical assistance expert networks	
	Informal economy	Delhi Group
	Non-observed economy	OECD
9. Special issues	Assessing quality of services	Voorburg Group Service producer price indices[a]
	Measuring productivity of services	
	Voluntary unpaid services	
	Non-profit institutions	
	Relationships between services and the rest of economy	OECD Statistical Working Party of the Committee on Industry and Business Environment
	Service flows from use/leasing of non-financial assets	Canberra II Group

[a] Groups principally focused on services.